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C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 000953

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SUBJECT: DAS BRYZA MEETS ARMENIAN PM AND DEFENSE MINISTER

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Classified By: CDA Joseph Pennington, reasons 1.4 (b,d).

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SUMMARY  
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11. (C) On November 17 EUR DAS Matt Bryza met separately with Prime Minister Tigran Sargsian and Defense Minister Seyran Ohanian. Acknowledging Armenia's failing MCC indicators and the upcoming MCC board meeting, the PM asked for time and understanding from Washington, warning that a program suspension could have a debilitating impact on Armenia's budget. He also predicted an economic crisis in the first quarter of 2009, and that the GOAM would request technical assistance programs to weather the storm. Bryza pressed for release of political detainees as a strong signal Armenia was moving in the right direction on MCC's "ruling justly" criterion. Stressing his support for more robust defense relations with the United States, Defense Minister Ohanian appealed to Bryza for more military training for his officer corps. In a preliminary account of a reported November 16 raid by Azerbaijani forces on the line of contact, Ohanian assured Bryza that "Armenian" forces would never initiate such skirmishes, but that they would respond. Ohanian commented that Azerbaijan's Defense Minister has repeatedly rebuffed his attempts to establish a Baku-Yerevan military hot line. Ohanian welcomed the prospect of pulling back Azerbaijani and Armenian snipers from the line of contact. He also urged that Nagorno-Karabakh's leaders be brought into the ongoing Minsk Group negotiations. END SUMMARY.

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PM ASKS FOR TIME, UNDERSTANDING ON MCC  
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12. (C) In noting the upcoming MCC Board meeting in December, and the fact that Armenia was still failing on its indicators, PM Sargsian asked Washington for more time and understanding, and not to suspend Armenia's program. Sargsian referred positively to his recent visit to Washington, and conversations with MCC CEO Danilovich and Secretary Rice on MCC, saying they had remarked that the program was a partnership, and not a test for Armenia.

13. (C) The PM said that Armenia and the United States agreed on the failing indicators, namely Armenia's problems with corruption, political rights, civil liberties, and the rule of law. But he pointed out that Armenia was working with MCC to address the indicators, and claimed that reforms are underway. The PM said Armenia realistically needed three years to turn the situation around, a goal that could be achieved provided the United States stuck with Armenia right now. The PM stressed that "Armenia wants to go through this passage together" with the United States.

14. (C) Sargsian said time and patience was needed because of the resistance to reforms that the GOAM was encountering. He

cited tax and customs administration reforms, in particular, as taking on entrenched interests. The PM warned that a suspension of the MCC could be a debilitating blow on Armenia's 2009 budget, where an impending economic crisis, coupled with the non-reimbursement of the USD 60 million that the GOAM was advancing to cover the MCC road construction project, could be devastating.

15. (C) Bryza agreed with the PM that the MCC was a partnership, but said Armenia could take dramatic steps in the short run to help its case at the next MCC Board meeting.

While Bryza commended the GOAM for its Policy Improvement Plan to address the falling indicators, he suggested the GOAM focus on a few key priorities to produce concrete results that would improve the indicators, as it is the indicators, not plans in progress, that determine a program's fate. Bryza specifically suggested freeing the 70-odd opposition supporters who have been detained and/or convicted, seemingly for pro-opposition political activities while ensuring they enjoy due process. The PM dismissed the idea of an amnesty, saying it would be "merely a show" that won't solve any of Armenia's real problems. He declared that democratic reforms could only take off in Armenia once economic reforms in the tax and customs spheres had taken root, which he estimated would take three years. Sargsian again appealed to Bryza for understanding, and asked Washington not to ignore the positive reforms underway. Bryza pressed again for the GOAM to free the political detainees.

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PM PREVIEWS ECONOMIC CRISIS, REQUEST FOR AID  
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16. (C) The PM said that while Armenia had escaped the first wave of the global financial crisis, its economy would likely

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be affected severely by its fallout during the first quarter of 2009. The PM said that Armenia's economy would be affected because of both poor fundamentals (a large current account deficit and weak tax administration) and external shocks. As external shocks, he cited that Armenia's mining industry and enterprises were coming to a halt because of a dramatic decline in world prices, and that foreign remittances would shrink in the first quarter, especially from Armenian workers in Russia.

17. (C) The Prime Minister fretted about the risks to Armenia's 2009 budget. He said on top of the contagion of the financial crisis, the budget was exposed by the GOAM's 22 billion dram (approximately USD 73 million) outlay to provisionally finance the MCC roads construction program which, if Armenia ends up having to permanently shoulder, would force the government to scale back other anticipated expenditures. (NOTE: In July, when MCC decided to postpone funding of the roads construction project absent progress on political reforms, the GOAM allocated USD 16 million of its own money to keep the construction going. The overall price tag for the construction of 273 kilometers of new roads is approximately USD 60 million; the 73 million that the PM used likely refers to that amount plus the value-added tax that the GOAM would have to pay itself for the contractors work. END NOTE.) He said the budget situation could also be worsened by Armenia's stable macroeconomic performance, which could prompt international donors such as the IMF to wait before intervening to help Armenia in an economic crisis. The PM said such a stance was essentially punishment of good performers. He said "it will be too late" if the IMF waits before intervening. He said that Armenia needs lots of liquidity, "now and fast," in order to ride out the storm. He expressed hope the IMF would help if Armenia did indeed face a serious balance of payments problem in early 2009.

18. (C) The PM said Armenia needed U.S. technical assistance more than ever as it embarked on these difficult reforms. He identified assistance in reforming the tax administration,

developing a concept plan for a free trade zone in Gyumri, and maximizing Armenia's trade benefits under the Generalized System of Preferences agreement with the United States. The PM said that U.S. Trade Representative Susan Schwab had promised to help Armenia during his Washington visit, and the PM planned on sending Economic Minister Yeritsian and a team of experts there to work on it.

¶9. (C) Bryza commended the PM on his economic reform efforts, said the PM had left a positive impression during his Washington visit, and that the United States stood poised to help Armenia in the event of an economic crisis. Bryza welcomed the PM's requests for technical assistance, and commented that the idea of a free trade zone in Gyumri showed geopolitical thinking (given its location near the Turkish border). Bryza told the PM that in subsequent visits he hoped to discuss further the topics of regional economic cooperation and energy.

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DEFENSE MINISTER ASKS FOR MORE TRAINING  
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¶10. (C) Hosting DAS Bryza at Armenia's new Ministry of Defense headquarters, Ohanian assured Bryza of his commitment to converting the leadership of Armenia's military from a military to civilian structure. He said the most important phase of reforms is the ongoing Strategic Defense Review (SDR), which is currently conducting an analysis of Armenia's security and threat environments. While thanking Bryza for DoD assistance with the SDR, Ohanian appealed to Bryza and DoD to provide more training opportunities for Armenia's senior officers, especially slots in U.S. military colleges, which he claimed Azerbaijan was receiving more of than Armenia.

¶11. (C) Ohanian complained about the precipitous fall in Armenia's IMET training funds, from USD 800,000 in FY 2008 to USD 330,000 in FY 2009, and hoped that Bryza could help reverse the trend. Ohanian stressed the benefits of training, as evidenced by the recent NATO exercise Armenia hosted in September and October, and hoped that an increase in training would help increase Armenia's interoperability with US and NATO militaries. Bryza assured Ohanian that the Embassy's DATT and Office of Defense Cooperation were working on requesting new training opportunities with the use of FMF funding, but warned that this was a general funding issue at DoD and that nearly all of America's partners sought additional IMET support. The U.S. welcomed this enthusiasm for IMET, but was struggling to secure more funding.

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NOVEMBER 16 RAID A REMINDER OF THREATS  
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¶12. (C) In response to DAS Bryza, who expressed serious concern about an Azerbaijani raid near the Armenian-controlled city of Fizuli (located in Azerbaijan) the night of November 16-17, Ohanian said he had no problem granting access to OSCE monitors, and that he had already got an assurance from "Nagorno-Karabakh's President" to facilitate OSCE access. Ohanian said that while the details were still preliminary, it appeared that an Azerbaijani special forces group of an unknown size had tried to cross the line of contact through a gap between two NK posts, at which point it was engaged by NK forces with small arms and machine guns. In the crossfire, one Azerbaijani was killed and the rest of the group was forced to retreat. The number of Azeri service members in the group could not be confirmed, but Ohanian suspected it was a patrol of four or five.

¶13. (C) Bryza expressed dismay that such a raid would occur while the Minsk Group Co-Chairs were visiting the region, and said the raid underscored how some parties to the conflict

opposed any settlement at all. Bryza thanked Ohanian for the access for OSCE emergency monitors, and said that he had spoken with Azerbaijan Foreign Minister Mammadaryov, who had promised to try to obtain Azerbaijani consent for Ambassador Kasprzyk, Special Representative of the OSCE Chairman in Office, to conduct the monitoring immediately. Ohanian asserted that the raid raises real questions about the lack of coordination between Azerbaijan's political and military structures. He also suggested that Azerbaijan's civilian Defense Minister, if it was he who authorized the raid, did not fully comprehend the dangers he was risking, and betrayed his lack of a military background. But, Ohanian did not view this incident as posing a particularly significant threat to the cease fire.

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AZERBAIJAN REJECTS ATTEMPTS TO CREATE HOT LINE  
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¶14. (C) Ohanian detailed his previous attempts to establish a Yerevan-Baku hotline, as well as a mil-mil protocol with Azerbaijan, which he and Azerbaijan's Defense Minister Abiyev could use to defuse the escalation of armed confrontations. Ohanian asserted that his counterpart had repeatedly rebuffed his initiatives, citing his first attempt to reach out during the March 4 confrontation on the line of contact. The second time he tried was after the sniper attacks on Armenian civilians in the Tavush region in June, which the Azerbaijani authorities also ignored. Ohanian gravely commented that he was repulsed by the sniper attack on one farmer, who was killed with a second shot even as he was trying to get away from the sniper's first bullet. Ohanian said such behavior forced Armenia to react.

¶15. (C) Ohanian also recounted how during the recent CSTO Defense Ministers meeting in Tajikistan he, as the more junior minister, had approached Defense Minister Abiyev with a proposal to prevent the escalation of armed confrontations. Ohanian said that when he "extended his hand" to Abiyev to try to set up a military-military protocol to prevent such incidents, the latter responded that Armenians also shoot across the borders. Ohanian stated this while this was true, it was only in response to Azerbaijani fire and to repel uninvited attacks. Bryza welcomed Ohanian's restraint in such cases, and that he and the Co-Chairs had raised the issues during their visits with Presidents Sargsian and Aliyev. He told Ohanian that both Presidents Aliyev and Sargsian had committed to pulling back snipers along the line of contact. Ohanian welcomed this news, and looked forward to implementing his commander-in-chief's order when issued to pull back Armenian snipers.

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BRING NK LEADERS INTO NEGOTIATIONS  
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¶16. (C) Ohanian expressed his personal view that the Nagorno-Karabakh (NK) leadership must be brought into the negotiations at some point, and that their exclusion must not be permanent. Bryza agreed that the NK leaders should be part of the process, and that to a certain extent they already were. He said the Co-Chairs always tried to consult with them during their visits. Bryza assured Ohanian that at a point in the future the NK leaders will be formally brought into the process, most likely once Yerevan and Baku finalize the "Basic Principles" and commence negotiations on a comprehensive settlement based on those principles.

¶17. (U) DAS BRYZA HAS CLEARED ON THIS CABLE.  
PENNINGTON